

**MINUTES
of the
SECOND MEETING
of the
INVESTMENTS AND PENSIONS OVERSIGHT COMMITTEE**

**July 1, 2008
State Capitol
Santa Fe**

The second meeting of the Investments and Pensions Oversight Committee for the 2008 interim was called to order by Senator John Arthur Smith, chair, on Wednesday, July 1, 2008, at 10:00 a.m. at the State Capitol in Santa Fe.

Present

Sen. John Arthur Smith, Chair
Rep. John A. Heaton, Vice Chair
Rep. Donald E. Bratton
Sen. Joseph J. Carraro
Rep. Larry A. Larrañaga
Sen. Carroll H. Leavell
Sen. Mary Kay Papen
Rep. Henry Kiki Saavedra
Rep. Jim R. Trujillo
Rep. Luciano "Lucky" Varela

Absent

Sen. Phil A. Griego

Advisory Members

Rep. Andrew J. Barreras
Gary Bland, State Investment Council
Rep. Miguel P. Garcia
Bob Gish, Public Employees Retirement
Association
Bob Jacksha, Educational Retirement
Board
James Lewis, State Treasurer
Sen. Leonard Lee Rawson
Olivia Padilla-Jackson, State Board of
Finance

Sen. Pete Campos
Sen. Carlos R. Cisneros
Sen. Stuart Ingle
Rep. Patricia A. Lundstrom
Rep. John Pena
Rep. Jane E. Powdrell-Culbert
Sen. Michael S. Sanchez
Sen. H. Diane Snyder
Rep. Sheryl Williams Stapleton
Rep. Eric A. Youngberg

Staff

Michelle Aubell, Legislative Finance Committee (LFC)
Doris Faust, Legislative Council Service (LCS)
Norton Francis, LFC
Jeret Fleetwood, LCS
Wayne Propst, LFC
Doug Williams, LCS

Guests

The guest list is in the meeting file.

Tuesday, July 1**Approval of the Minutes of the June 11, 2008 Meeting**

The minutes of the June 11, 2008 meeting were adopted unanimously.

New Mexico Finance Authority (NMFA); Financing Debt Service

—Mark Valenzuela, Director, Intergovernmental Relations, NMFA

—John Duff, Chief Financial Officer, NMFA

Mr. Valenzuela made a presentation concerning the NMFA bond portfolio. He explained that insurance companies that supported NMFA investments in auction rate securities were heavily invested themselves in the subprime mortgage market. With the onset of the subprime crisis, the rating of the insurance companies dropped from AAA to AA, A or less. This, in turn, caused the pool of investors to shrink and triggered a contractual increase in the interest rate that the NMFA was required to pay because of the inability to find investors. He noted that the NMFA is no longer participating in auction rate securities. The NMFA has shifted to variable rate demand notes that are supported by a letter of credit from a bank.

Representative Larrañaga asked about the policy for issuing future bonds. Mr. Valenzuela responded that no new bonds are expected to be issued until 2010. The NMFA's policy has not changed, and the possibility of variable rate notes will be considered at that time.

Representative Heaton requested staff to review the NMFA statutes with respect to interest rates that may be paid on bonds and to explore the possibility of according the NMFA additional flexibility in structuring bond interest rates.

Representative Varela thinks that the legislature needs to be better informed about revenue collections and the cost of health insurance.

LFC; Overview of Investment Performance

—Michelle Aubel, Fiscal Analyst, LFC

—Dan White, Economist, LFC

Ms. Aubel provided an overview of state investment performance for the first quarter of 2008.

State Investment Council (SIC); Investment Update

—Gary Bland, Chief Investment Officer, SIC

—Adam Levine, Deputy Investment Officer, SIC

Mr. Bland made a presentation concerning SIC investment performance.

Mr. Lewis asked about trying to time the market. Mr. Bland responded that he does not believe in trying to time the market; however, he believes it is important to recognize a down market.

Representative Bratton asked about participation in hedge funds. Mr. Bland responded that the SIC has instructed its hedge fund manager to avoid energy and food futures. He stated that he believes that public investment agencies have a moral obligation not to speculate in food and energy.

Representative Varela asked for an update on investment performance at the committee's August meeting.

Representative Heaton observed that it is important to maintain a long-term perspective when it comes to investing.

Senator Smith asked if there is an opportunity in the subprime crisis. Mr. Bland stated that subprime investments have already been written down and they are now being bid up.

Public Employees Retirement Association (PERA); Investment Update

—Bob Gish, Chief Investment Officer, PERA

Mr. Gish presented an overview of the PERA investment performance.

Senator Carraro asked how frequently the PERA meets with its active investment managers. Mr. Gish stated that there are annual meetings with each of the 24 fund managers and routine telephone contact by PERA staff. Also, the PERA has placed Alliance Bernstein on the watch list and has met with this manager twice in the past year.

Representative Saavedra asked why the PERA would put a fund manager on the watch list when all the market benchmarks are down. Mr. Gish stated that the PERA compares its fund managers to their peers and acts accordingly.

Senator Carraro asked why the PERA does not simply invest in three-month treasury bills because at least there would be a positive return instead of a loss. Mr. Gish observed that the rate of return from treasury bills is insufficient to meet the PERA's overall target of eight percent.

Representative Bratton asked about the impact of the last quarter's performance on the funded ratio. Mr. Gish stated that there will be a negative effect, but it will be small. Representative Bratton noted that different groups are always seeking improved retirement benefits based on the assumed eight percent rate of return. Mr. Gish responded that the key to improving benefits is appropriate contributions.

PERA; Un-Reconciled Accounts

—Kurt Weber, Deputy Director of Operations, PERA
—Anthony Armijo, Financial Operations, Department of Finance and Administration

Mr. Weber and Mr. Armijo reported on the issue of suspended records.

Representative Varela noted that the state auditor believes that the SHARE system is manageable. However, Representative Varela observed that the number of errors in suspended records began in fiscal year 2006, when SHARE was implemented, and has increased every year since.

Representative Varela requested a report regarding the number of errors that have been resolved.

Mr. Armijo stated that the number of errors represents 1.5 percent of all transactions sent to the PERA. He also said that the core of the problem is a matter of definitions between the payroll system and the PERA's system. As an example, the payroll system records the date when an employee is hired, while the PERA system is keyed to an employee's change of status, e.g., the date an employee's status changes from temporary to permanent.

Representative Varela asked when this issue will be resolved. Mr. Armijo responded that the target for fixing the interface is September 30, 2008. In terms of fixing the employee accounts, it is unknown when this issue will be resolved.

Representative Bratton observed that 95 percent of the problem is related to the date issue.

Educational Retirement Board (ERB); Actuarial Update from 2007

—Jan Goodwin, Executive Director, ERB
—Bob Jacksha, Chief Investment Officer, ERB

Ms. Goodwin and Mr. Jacksha reviewed the actuarial status of the ERB.

Mr. Jacksha noted that one year of poor performance will not have a significant impact on the funded ratio because the ERB uses a five-year smoothing approach.

Senator Smith encouraged Ms. Goodwin to explore transitioning from defined benefit to defined contribution. Ms. Goodwin noted that defined contribution retirement plans are not a panacea.

The committee adjourned at 4:30 p.m.